

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7678

BILL NUMBER: SB 480

NOTE PREPARED: May 4, 2007

BILL AMENDED: Apr 27, 2007

SUBJECT: Veterans' Benefits.

FIRST AUTHOR: Sen. Wyss

FIRST SPONSOR: Rep. Reske

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Military Income Deduction:* This bill exempts active duty military pay earned by members of the National Guard and reserve components of the United States armed forces from the individual income tax. The bill increases the military pay income tax deduction from \$2,000 to \$5,000. It provides that a taxpayer may not claim both the new exemption and the existing deduction for military income.

Employment Criteria: The bill establishes employment criteria for employees of the Indiana Department of Veterans' Affairs and local service officers.

Medal of Honor Recipients: The bill provides for reimbursement of certain expenses of Medal of Honor recipients.

Power of Attorney Requirement: The bill provides that a power of attorney for prosecution of veterans' benefits runs to an agency or individual authorized by the Department.

Veterans' Affairs Trust Fund: The bill establishes the Veterans' Affairs Trust Fund and the Military and Veterans' Benefits Board. It provides that the Board (rather than the Veterans' Affairs Commission) administers the Veterans' Affairs Trust Fund and the Military Family Relief Fund.

Tuition Exemption for Persons Stationed in Indiana: The bill specifies that active duty military personnel stationed in Indiana and their dependents are eligible for resident tuition rates at state educational institutions.

High School Diplomas for Veterans from the Korean and Vietnam Conflicts: The bill expands the high school

diploma program for eligible veterans to include veterans of the Korean and Vietnam conflicts.

National Guard Scholarship Extension Fund: The bill establishes the National Guard Scholarship Extension Fund to provide scholarships to certain former National Guard members. It requires the State Student Assistance Commission to transfer on June 30, 2007, the National Guard Scholarship Program reserves to the National Guard Scholarship Extension Fund.

Adoption of Rules: The bill authorizes the: (1) advisory board of the Division of Professional Standards of the Department of Education; and (2) various professional licensing boards; to adopt rules to expedite the licensure of individuals whose spouses are stationed on active duty in Indiana.

Effective Date: Upon Passage; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *High School Diplomas for Veterans from the Korean and Vietnam Conflicts:* The bill modifies the definition of eligible veteran to include persons who fought in the Korean and Vietnam conflicts. Under current law, eligible veterans are entitled to an honorary high school diploma. Under the bill, the Department of Education (DOE) would incur expenditures to produce additional diplomas for Korean and Vietnam veterans, and the Indiana Department of Veterans Affairs (IDVA) would incur additional administrative responsibilities to verify the eligibility of veterans from the Korean and Vietnam conflicts. The fiscal impact to state expenditures is currently indeterminable but expected to be minimal.

Background Information: Projections from the United States Department of Veterans' Affairs indicate that approximately 230,000 veterans from the Korean and Vietnam conflicts currently live in Indiana. There could be additional veterans living out of state that left an Indiana high school to enter the Vietnam or Korean conflicts that may qualify. There may also be veterans living in Indiana that attended an out-of-state high school.

During the 2002 session, the Indiana legislature passed P.L.127-2002. Since that time, a total of 276 honorary diplomas were awarded to World War I and World War II veterans that dropped out of high school in order to enlist in the armed forces of the United States. Of the 276 diplomas, the DOE has awarded 47 diplomas at the state level, versus 229 diplomas awarded at the local school district level. The DOE reports that total costs to produce a diploma are dependent on the type of diploma created, and are minimal.

Tuition Exemption for Persons Stationed in Indiana: Military personnel stationed in Indiana would be able to pay the resident tuition and fees instead of the out-of-state fees for themselves and for their dependents. The provision would reduce the amount of tuition the university receives for these students, but the overall impact on universities is probably minor. According to the Defense Manpower Data Center there were 869 active duty members of the U.S. armed forces stationed in Indiana as of January 11, 2006. (Note: The totals in 2004 and 2005 were reportedly 994 and 1,014, respectively.) The number of these active duty service personnel who currently attend a state university, or have a dependent, or multiple dependents, that attend; or who may in the future, is unknown. Out-of-state fees range from about \$2,500 to \$19,000 more per year than resident fees.

Adoption of Rules: The bill allows: the Division of Professional Standards within the Department of Education (DOE), a Health Professions Standards Board (as defined in IC 25-1-9-1), and a Professional Standards Licensing Board (as defined in IC 25-1-11-1); to adopt rules to establish procedures to expedite the issuance, renewal, or reinstatement of a license, certificate, registration, or permit, of a person whose spouse served on active duty and is assigned to a duty station in Indiana. All entities should be able to do so

within their existing level of resources.

Military Income Deduction: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the deduction changes relating to certain active duty military pay and military service income in general. The DOR's current level of resources should be sufficient to implement these changes.

Power of Attorney Requirement: The bill allows the IDVA to act as power of attorney and authorize action on behalf of a veteran in obtaining a benefit or an advantage provided under Indiana law. As proposed, the IDVA reports that it would experience an increase in workload. However, it should be able to incorporate the requirement within its existing level of resources. The IDVA would be responsible for scanning, digitally storing, and reviewing a veteran's application. The IDVA would also be responsible for representing a veteran during an appeals process, should one take place.

Medal of Honor Awardee Compensation Program: The bill requires the Director of the IDVA to establish a program and set guidelines under which a Medal of Honor awardee who is a resident of Indiana may receive compensation when called upon to attend and participate in official ceremonies within Indiana. The Director would likely experience an increase in administrative duties as a result. The bill also appropriates an unspecified amount of money from the state General Fund to establish the program.

Veterans' Affairs Trust Fund: The bill establishes the Veterans' Affairs Trust Fund for the purpose of providing assistance to veterans and their families. The Fund consists of: (1) appropriations by the General Assembly, (2) donations, gifts, grants, and bequests to the Fund, (3) interest and dividends on assets of the Funds, (4) money transferred to the Fund from other funds, and (5) money from any other source. Expenses of administering the Fund shall be paid from the Fund. Money in the Fund does not revert to the state General Fund or any other Fund.

Military and Veterans' Benefits Board: The bill establishes the Military and Veterans' Benefits Board. The Board consists of seven members appointed by the Governor, the Director of the IDVA, the Adjutant General, and four members of the General Assembly. The Board is required to meet at least quarterly.

Members of the Board who are not state employees are entitled to a minimum salary per diem under IC 4-20-11-2.1(b) of \$35. Currently, this statute is overridden by Section 15 of the budget bill which provides a higher reimbursement of \$50. It should be noted that should the budget bill dictate a different amount of reimbursement in the future, or not address reimbursement, this reimbursement level could change. Members are also entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of the Board who are state employees but are not members of the General Assembly are entitled to: (1) reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties, and (2) other reimbursement provided for under rules adopted by the Department of Administration. Members of the Board who are members of the General Assembly are entitled to receive the same per diem, mileage, and travel allowances paid to legislative members of interim study committees established by the Legislative Council. Per diem, mileage, and travel allowances paid to Board members who are members of the General Assembly are to be paid from appropriations made to the Legislative Council or the Legislative Services Agency.

The Board is responsible for: (1) managing and developing the Fund and the assets of the Fund; (2) establishing a policy for the investment of the assets of the Fund; (3) acquiring money for the Fund through

solicitation of private or public donations and other revenue producing activities; and (4) performing other tasks consistent with prudent management and development of the Fund. The Board is required to report to the General Assembly before October 1 of each year concerning the Fund.

The Board is required to adopt rules to: (1) establish or designate programs to be funded by the Fund, and (2) determine the eligibility and application procedures, and (3) otherwise implement the Veterans' Affairs Trust Fund.

The bill also modifies current statute and transfers the responsibility of administering the Military Family Relief Fund from the IDVA to the Board.

National Guard Extension Fund: The bill establishes the National Guard Scholarship Extension Fund to provide the financial resources necessary to award tuition scholarship extension applicants. The State Student Assistance Commission is required to administer the Fund. Expenses of administering the Fund are to be paid for from money in the Fund. The Fund consists of money transferred to the Fund from the National Guard Scholarship Program reserves. Money in the Fund does not revert to the state General Fund and shall be used to provide annual scholarships to scholarship extension applicants in an amount determined by the Commission.

The bill requires the Commission to adopt rules to implement the National Guard Scholarship Extension Program. The Commission should be able to conduct adoption of rules and administration of the program within its existing level of resources.

Background Information: The Commission reports the following pertaining to expenditures paid for by the National Guard Tuition Supplement Program.

Year	Reserve	Spent
2004	\$519,686	\$2,310,353
2005	\$1,439,732	\$2,135,332
2006	\$1,736,126	\$2,750,135
2007	NA	\$2,413,004

It should be noted that reserve dollar amounts will vary depending on the number of Indiana National Guardsmen who have been called up.

Explanation of State Revenues: *Military Income Deduction:* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers receiving military service income. The additional revenue loss from the bill could potentially total about \$5.0 M to \$5.5 M in FY 2009. The revenue loss could increase by about 1.5% annually thereafter.

Under current statute, a taxpayer may deduct up to \$2,000 in military service income from state AGI. This includes military retirement provided the recipient is 60 years old or older. The bill makes the following two changes to the current deduction:

(1) The bill increases the deduction for military service income from \$2,000 to \$5,000.

(2) The bill provides for a full deduction for active duty pay earned by Armed Forces Reserve and National Guard members in lieu of the deduction for military service income described in (1) above. (Note: Combat pay is already excluded from federal gross income and, as a result, is excluded from state AGI.)

Since the bill is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

State tax data indicates that 36,530 taxpayers claimed the deduction for military service pay and retirement benefits in tax year 2004, deducting approximately \$72.5 M in military pay and retirement benefits. This amount resulted in a revenue loss of about \$2.5 M. Based on U.S. Department of Defense military census and pay rate data, it is estimated that about 35% of the annual total amount deducted under the current \$2,000 deduction is attributable to Indiana taxpayers earning active duty pay during the year, with the remainder attributable to National Guard or reserve pay and retirement benefits.

Explanation of Local Expenditures: *High School Diplomas for Veterans from the Korean and Vietnam Conflicts:* See *Explanation of State Expenditures*.

Explanation of Local Revenues: *Military Income Deduction:* Because the proposed increase in the military service income deduction would decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Department of Veterans' Affairs; Department of Education; State universities and colleges; Health Professions Standards boards; Professional Standards Licensing boards; Department of State Revenue; State Student Assistance Commission.

Local Agencies Affected: School corporations; Counties with local option income taxes.

Information Sources: Tom Applegate, Indiana Department of Veterans' Affairs; <http://usmilitary.about.com/library/milinfo/statefacts/blin.htm>; Jeff Zaring, Department of Education; OFMA Income Tax databases, 1996-2004; Deborah K. Williamson, U.S. Department of Defense, Defense Manpower Data Center, (831) 583-2400; Matthew Torres, U. S. Department of Defense, Defense Manpower Data Center (831) 583-2500; State Student Assistance Commission.

Fiscal Analyst: Jim Landers, 317-232-9869; Sarah Brooks, 317-232-9559; Chuck Mayfield, 317-232-4825.